

STATEMENT OF  
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BEFORE THE  
COMMITTEE ON SMALL BUSINESS  
UNITED STATES HOUSE OF REPRESENTATIVES

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Good morning Madam Chairwoman and distinguished Members of this Committee. I am Susan E. Dudley, Administrator of the Office of Information and Regulatory Affairs (OIRA), in the U.S. Office of Management and Budget (OMB). Thank you for inviting me to testify about improving the Paperwork Reduction Act (PRA or the Act) for small businesses. I appreciate the opportunity to discuss the PRA and OIRA's efforts to lighten the paperwork burdens the Federal government imposes on small businesses. As this is my first appearance before this Committee as OIRA Administrator, let me assure you I share your commitment to reducing the regulatory and paperwork burdens that America's small businesses confront daily, and I look forward to exploring new approaches to advancing this critically important goal.

Small entrepreneurs are the engine of economic growth in America. Small businesses represent over 99 percent of all employers and provide 60 to 80 percent of net new jobs. Yet, research by the Small Business Administration (SBA) suggests that small entities disproportionately shoulder regulatory and paperwork burdens. This research indicates that firms with fewer than 20 employees spend 45 percent more per employee than do larger firms to comply with Federal regulations. OIRA, along with SBA's Office of Advocacy and other Federal regulatory agencies, is working both to minimize unnecessary burdens, and also to help America's small businesses comply with regulatory and reporting requirements.

## **OIRA's Role under the Paperwork Reduction Act**

The Paperwork Reduction Act of 1980 established OIRA within the Office of Management and Budget. The PRA is premised on the principle that the Federal government should not require, or ask, citizens, businesses, organizations, State and local governments, and other public entities to comply with paperwork requirements that are unnecessary, duplicative, or unduly burdensome. Reauthorizations of the Act in 1985 and 1995, and the Small Business Paperwork Relief Act (SBPRA) of 2002, have further enhanced OIRA's role in eliminating unnecessary, duplicative, and unjustified paperwork burdens, particularly on small entities, and these goals remain high priorities for my office.

While the Act makes agency Chief Information Officers responsible for the management of information resources within their agencies, OIRA plays an important oversight role and works to promote two key goals of the PRA—reducing information collection burdens on the public that “represent the maximum practicable opportunity in each agency” and ensuring “the greatest possible public benefit” from information that is collected, used, and disseminated by the Federal government. One important way that OIRA exercises this oversight authority is our day-to-day reviews of agency information collection requests. These PRA reviews seek to ensure that agencies (1) reduce the paperwork burdens that are associated with existing collections of information and (2) impose the least necessary paperwork burden when they issue new collections of information.

The PRA applies very broadly to agency collections of information, which can include reporting, recordkeeping, and third-party disclosure requirements that apply to ten or more persons, businesses, or State, local, or Tribal governments. Currently, there are over 8,500 active information collections that have been approved by OMB. Without such OMB approval,

agencies cannot implement an information collection. The PRA process for obtaining OMB approval includes public notice and comment procedures that provide an opportunity for the public to suggest ways that agencies can reduce burden (or estimate it more accurately) and improve the usefulness and timeliness of the information collected. After OMB's initial approval of an information collection, agencies must seek and obtain extensions of OMB approval at least once every three years. Consistent with the PRA's goals, OIRA's reviews of agency information collection requests involve an assessment of the "practical utility" of the information to the agency and the associated burden that collecting this information imposes on the public.

### **The Paperwork Reduction Act and Small Businesses**

In conducting our reviews of agency information collection requests, OIRA is particularly sensitive to collections that affect small businesses. Indeed, the PRA's statement of purposes identifies as a key PRA goal minimizing the paperwork burden on small businesses.

The PRA also provides specific direction to agencies on how they can minimize the burdens that they impose on small businesses, using approaches such as "(i) establishing differing compliance or reporting requirements or timetables that take into account the resources available to those who are to respond; (ii) the clarification, consolidation, or simplification of compliance and reporting requirements; or (iii) an exemption from coverage of the collection of information, or any part thereof."

When the PRA was reauthorized in 1995, Congress added a requirement that agencies certify, as part of their requests for OMB approval of an information collection, that the collection "reduces to the extent practicable and appropriate the burden" on small businesses and other small entities. OMB added this certification requirement to the OMB PRA implementing

regulations (5 C.F.R. 1320.9(c)). In addition, agency information collection requests submitted to OMB must indicate whether the information collection will have a “significant economic impact on a substantial number of small entities.”

The 2002 SBPRA further reinforced the PRA’s focus on minimizing small business paperwork burdens. This legislation established a multi-agency Task Force to address this issue. On June 28, 2003, the SBPRA Task Force submitted its first report to Congress, which included a number of recommendations to streamline the Federal information submission process and reduce small business paperwork burdens. Specifically, the report outlined steps to consolidate information collections, develop a listing of these collections, and allow for electronic submission of forms. One year later, the SBPRA Task Force submitted a second report to Congress that made recommendations concerning the dissemination of information by agencies to facilitate compliance with Federal paperwork requirements. The SBPRA also amended the PRA to require agencies to “make efforts to further reduce the information collection burden for small business concerns with fewer than 25 employees.”

### **Ongoing Efforts to Reduce Small Business Paperwork and Compliance Burdens**

Motivated by these statutory requirements, Federal agencies have taken a number of steps over the past several years to reduce the amount of information they collect from small businesses and to ease their compliance burdens, often through the innovative use of information technology. Nonetheless, we have seen government-wide paperwork burdens increase over time, as OMB has documented in its annual Information Collection Budget report submitted to Congress pursuant to the PRA. Government-wide PRA burden increased from 8.24 billion hours in FY 2005 to 8.92 billion hours in FY 2006, an increase of more than 8 percent.

A recurring theme of the ICB in recent years has been the disproportionate role played by the Internal Revenue Service (IRS) in the Federal government's information collection activities. Because of the Federal income tax system, the IRS is an important part of the lives of all taxpayers, including businesses large and small. This fact was again reflected in last year's ICB, when OMB reported that the IRS was responsible for about 78 percent of the Federal government's total reporting burden on the public in FY 2006.

Despite these broader trends of aggregate burden increases, agencies have been able to achieve some notable burden reduction successes. Let me highlight just a few examples.

Internal Revenue Service: Employer's Annual Federal Tax Program

As reported in last year's ICB, the IRS Office of Taxpayer Burden Reduction recently launched an initiative to reduce burden on small business taxpayers who owe \$1,000 or less in Employment Tax (ET) by establishing new rules and processes that will allow them to file their ET returns, as well as pay the ET tax due, on an annual rather than a quarterly basis. As long as these filers remain at \$1,000 or less in total Employment Tax they will remain filers of Form 944, the Employer's Annual Employment Tax Return. Those businesses that exceed this threshold will be subject to the requirement to file Form 941, the Employer's Quarterly Employment Tax Return. By allowing smaller businesses to file annually instead of quarterly, IRS estimated that reporting burdens would drop by almost 30 million hours.

Small Business Administration: The Business Gateway Initiative

SBA's Business Gateway Initiative offers businesses a single access point to Federal regulatory and paperwork compliance resources, including forms, and tools. The initiative, which includes Business.gov, Forms.gov, and data harmonization activities, reduces the amount of time and money business owners spend on complying with Federal regulations and associated

paperwork so that they can spend more time running their business. Specifically, Business.gov simplifies and improves businesses' ability to locate government compliance guides and forms they deal with on a regular basis, thereby reducing the effort needed to comply with government regulations.

Business.gov is an innovative, search-focused, website where businesses can access up-to-date regulatory and paperwork compliance information and save time doing so. The information available through Business.gov was assembled by reaching across agency silos to make content accessible and relevant to the business community. Business Gateway epitomizes the spirit and intent of the PRA by helping business save time getting answers to important questions including: (1) What laws and regulations apply to me?; (2) How do I comply?; and (3) How do I stay in compliance?

The Business Gateway Initiative also promotes "data harmonization," which is defined as the reduction of regulatory reporting burden on citizens and business by reducing the complexity of reporting processes and improving the reuse and distribution of information across Federal, State, and local agencies. Business Gateway supports data harmonization by advocating for and supporting data harmonization solutions.

Business Gateway's seminal data harmonization project is called Single Source Coal Reporting (SSCR). Previously, the coal mining industry submitted highly redundant, paper-based forms to regulators. Under this pilot program, the industry has been able to submit data and pay fees using a single online form, and have it automatically sent to appropriate regulators. While changes may be forthcoming to the project's structure, the Federal partners have included the IRS and the Departments of Labor and Interior; the State partners have included Pennsylvania and Virginia. Additional data harmonization projects are being explored with the National

Aeronautics and Space Administration, the Environmental Protection Agency (EPA), and the Department of Commerce.

#### OMB and SBA: Compliance Assistance for Small Businesses

The SBPRA requires Federal agencies to designate one point of contact to act as a liaison between the agency and small business concerns. SBPRA also requires OMB, in conjunction with SBA, to publish on the Internet a list of compliance assistance resources available at Federal agencies for small businesses. In accordance with the SBPRA, Business.gov published a “Federal Compliance Contacts” page which gives the names, phone numbers and e-mail addresses of individuals at Federal agencies who can help small business answer regulatory and legal questions. Business.gov also publishes Small Business Guides that include links to Federal, State and local agency resources that help small businesses meet their regulatory requirements. This information is presented together so that if a small business owner does not find the information they are seeking, a “live” person to assist them is readily identifiable.

#### EPA: National Emission Standards for Hazardous Air Pollutants

In December 2005, EPA issued a final rule permanently exempting certain categories of “non-major” industrial sources that are subject to national emission standards for hazardous air pollutants (NESHAP) from the requirement to obtain an operating permit under title V of the Clean Air Act. The five exempted source categories are dry cleaners, halogenated solvent degreasers, chromium electroplaters, ethylene oxide sterilizers and secondary aluminum smelters. EPA estimated that this final rule will provide regulatory relief for over 38,000 sources, many of which are small businesses. This reform was an outgrowth of OMB’s 2004 public solicitation for specific reforms to regulations, guidance documents or paperwork requirements that would improve manufacturing regulation.

### OMB: Zero-Tolerance of PRA Violations

In complying with the PRA, agencies must ensure that they have OMB approval to implement new or revise existing information collections, prior to their use. Whenever an agency implements a new information collection, or revises an existing collection, without obtaining OMB's approval to do so, it is considered a violation of the PRA. To help the public and the agencies monitor compliance with the information collection provisions of the PRA, OMB annually publishes a list of violations in the ICB. Last year, OMB reported the lowest number of violations (resulting from the lapse of OMB's approval for an ongoing collection) that it has ever reported since implementing a "zero tolerance" approach to violations of the PRA. During FY 2006, the agencies reported only 12 PRA violations. OMB was also pleased to report that 64 percent of the agencies included in the ICB reported zero violations in FY 2006, which was up from 57 percent in FY 2005.

### **Improving the PRA for Small Businesses**

The PRA has been reauthorized twice since it was originally enacted in 1980, and each of these reauthorizations made important improvements in how the Act functions. Further, the 2002 Small Business Paperwork Relief Act has helped to focus agency efforts on easing paperwork burdens on small entities. Yet, as I mentioned earlier, we continue to see information collection burdens increase.

I strongly support the PRA's goal of reducing government reporting burdens while improving the management of agency information resources, and I generally believe it is having a positive effect. However, there may be things we can do administratively and statutorily to improve it further. For OIRA's part, we must continue to work with agencies, such as IRS and



EPA, which impose paperwork burdens that are particularly challenging for small businesses, to minimize the burden and maximize the utility of the information collected.

It will be challenging, however, and I see two dimensions to this challenge. One involves reducing the amount of information being collected, and the other involves streamlining the method of collection to ease the burden, particularly on small businesses.

Let me illustrate with OMB's efforts with the IRS and its Office of Taxpayer Burden Reduction. The example I provided earlier, where small business taxpayers who owe Employment Taxes of \$1,000 or less can file annually rather than quarterly, illustrates the first dimension, where we are actually reducing the amount of information reported. Other efforts have focused on the second of these dimensions, and include simplifying and redesigning forms; increasing the use of technology and electronic commerce; and reengineering processes. Despite all these efforts, statutory requirements and increased usage of tax forms—part of the first dimension I mentioned—have more than offset IRS initiatives to reduce paperwork burden. Given IRS's disproportionate share of government-wide paperwork burdens, this has made it impossible for the Federal government to achieve the aggregate reductions in burden called for by the PRA.

The challenge of reducing IRS paperwork burden—which is largely driven by the Internal Revenue Code—reflects the broader dynamic that we have observed over the years: changes in burden due to new statutory requirements. As OMB has reported in its annual Information Collection Budget, agency implementation of new statutes has continued to increase paperwork burdens. In each session of Congress, laws are passed that create new programs for Federal agencies to implement and, quite frequently, new agency demands for information. Typically, new legislative initiatives and amendments require more, not less, data collection.

This is the biggest challenge we face in trying to minimize paperwork burdens, in large part because there are real tradeoffs associated with new collections. For example, third-party disclosure requirements, such as labeling requirements on food, may be the most effective and least intrusive method of protecting consumers. Surveys and other data collection may improve the design and enforcement of regulations, making them more effective and less burdensome in the long run. Nevertheless, it would be valuable for legislators, as they draft new legislation, to consider the paperwork implications of alternative proposals, particularly as they affect small entities.

### Conclusion

Let me conclude my testimony by expressing my willingness to discuss further these and similar ideas with members of the Committee to improve the effectiveness of the PRA.

Thank you very much for the opportunity to testify in today's hearing. I would be happy to answer any questions you may have.